

Commercial Activities Panel
Hearing: June 11, 2001
Testimony of Acquisition Solutions, Inc.
Presented by

Shirl Kinney Nelson

Thank you for the opportunity to present to this distinguished panel our views on the principles and policies that should govern federal outsourcing decisions.

Who we are

My name is Shirl Kinney Nelson and I am the Managing Editor and Senior Policy Analyst for Acquisition Solutions, Inc. Before my retirement from federal service in October 2000, I served as the Senior Procurement Executive for the Department of Commerce, then the Deputy Assistant Secretary for Administration for the National Telecommunications and Information Administration, and finally as the Director of Administration for the Bureau of Export Administration.

Acquisition Solutions, Inc., was created five years ago with the express purpose of assisting federal agencies to *identify and implement acquisition reform and successful practices*. This is our “core capability.” As part of this core business, we offer Acquisition Solutions’ Acquisition Directions™ — an on-call research, information, and consultative service. One part of that service is a monthly “white paper” called Acquisition Directions Advisory.

Our April Advisory is entitled, “Outsourcing – Big Again.” I would like to include that as part of my testimony.

Our Observations

We count almost 60 federal agencies as clients. Through our consulting work with our clients, we have the opportunity to study how well policies work in the field. I would like to share with you some observations “from the trenches” about the need to refocus the federal policy on outsourcing, and offer our suggestions for change.

(1) Principles underlying sourcing decisions should be refocused.

In our view the decision on what is the “right source” to perform a commercial activity should be based on these questions, tied to the Government Performance and Results Act and the Clinger-Cohen Act—

- Is the function part of the core mission of the agency or is it support- or infrastructure-related?

- Is there adequate competition in the commercial marketplace for performance of the activity?
- Is the government or the private sector more likely to provide a superior outcome in performance of the function?

To cut to the chase, we believe the “right source” is the private sector if the function is support- or infrastructure-related, there is adequate competition in the marketplace to perform the function, and the marketplace is likely to produce superior results. Under these conditions, agencies should competitively contract for the activity if it is new or directly convert the activity to contract if it is currently performed in-house. Under these conditions, public-private competition wastes precious resources — on both sides. We have heard it described by government employees and contractors alike as “cruel and unusual punishment.”

In our view, the current policy is an impediment to good sourcing decisions, forcing agencies to use a one-size-fits-all approach to address complex 21st century challenges.

The current principles assume a world in which the performance of service activities — including the transformation and modernization of agency systems — involves nothing more than a frequently inappropriate and rarely successful apples-to-apples cost comparison between government and contractor “FTE.” Let the low bid win. (Not the way I’d remodel my house!). It assumes that a cost comparison between contractor and government performance to select the low bid will result in the best deal for the American taxpayer despite these facts—

- Agencies and contractors account for their costs in totally different ways. The savings claimed for in-house performance are questionable.
- Agencies have great difficulty recruiting and retaining talent in the face of a shortage of skilled technology workers.
- Encumbrances of the federal personnel system make it extremely difficult for agencies to refresh their workforce with the skills needed for today and the future.
- Transformations such as the Army’s Logistics Modernization System (LOGMOD) involve dimensions far beyond apples-to-apples cost comparisons.
- A competition won by a federal agency virtually guarantees the “status quo.” Performance may be marginally improved, but rarely does it provide the transformation frequently needed.

(2) The acquisition workforce cannot fulfill the demands of the current approach.

The acquisition workforce is not equipped — either in numbers or skills — to handle the volume of A-76 competitions on the horizon. The DoD Acquisition Task Force 2005 Report reveals that the rate of reduction in the acquisition workforce has substantially exceeded the rate of reduction of the rest of the workforce – 47 percent since 1990 compared with 37 percent for the overall workforce.

Aside from the numbers employed in the workforce and their relative experience or inexperience, we know they are not trained and skilled in performance-based contracting. **We include in this workforce, not just procurement personnel, but the entire team of program, management, and technical personnel that must be assembled for an A-76 competition.** The knowledge needed for performance-based acquisition is much broader than needed for traditional contracting. Performance contracting requires a much better understanding of mission needs, performance measures, and contract incentives than traditional contracting. We know from the lack of agency success using performance-based contracts to date ... despite years of regulations and policies encouraging if not requiring their use ... that the skills to do so just are not there.

While a workforce with these skills is needed in any case, it is essential for conducting A-76 competitions. It is unwise to base sourcing *decisions* on competitions managed by a dwindling, ill-trained workforce.

Our proposals

What can be done? We believe there are several things that can be done to help agencies make better sourcing decisions. Several of our recommendations will be more appropriate for future hearings in which the Panel will focus on the A-76 process. For this hearing, we offer our recommendations for the overarching policy and approach to making sourcing decisions. We believe the underlying principles for whether an agency should outsource or retain commercial activity in-house should be based on the core business lines of the agency.

We have two major recommendations for this hearing (saving others for future hearings):

- (1) Replace the principles of OMB Circular A-76 with principles that embrace results-driven sourcing decisions. This policy could be implemented through GPRA guidance. Take the focus of sourcing decisions out of the procurement arena. Most procurement shops do not have the expertise, organizational clout or resources to be the business managers of mission-based sourcing decisions. If a GPRA-based decision is to outsource, then the ensuing procurement process belongs in the procurement shop.
- (2) If you do not replace the current principles, waive them for the sourcing of information technology services. No sector is more dynamic and market-driven than the IT sector. Let the marketplace provide the efficiencies and cost savings that government officials are striving to provide the taxpayers.

We are aware that this Panel plans to hold additional hearings. We suggest that the Panel devote at least one of those hearings to how industry makes outsourcing decisions and that you base your policy recommendations to Congress on successful commercial best practices for outsourcing.

In conclusion, in order to deliver improved services to its citizens, the government needs to be able to *manage* more like the private sector—rather than *compete* with it. This view and others are expressed in our April Advisory.

That completes ASI's testimony. Thank you again for the opportunity to present our views, and we believe, the views of the many government procurement and CIO offices that we support.